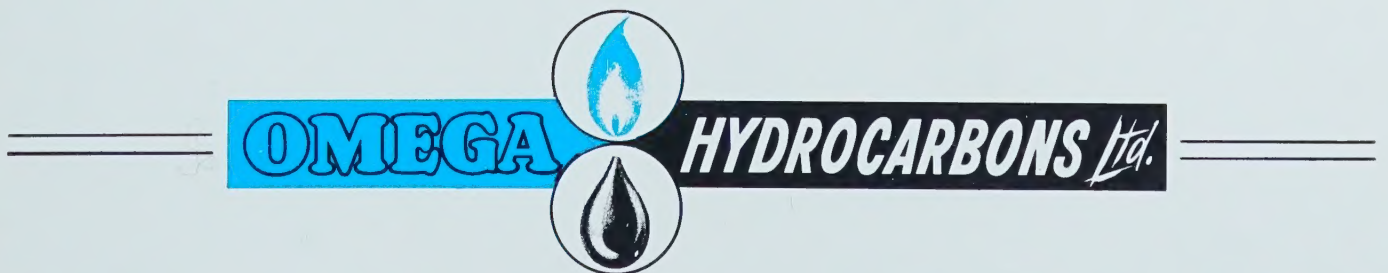



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ANNUAL REPORT 1975





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DIRECTORS

T. Jack Hall, Calgary
Henry Higgins, Calgary
Ernest M. Braithwaite, Calgary

OFFICERS

President - T. Jack Hall
Secretary - Ernest M. Braithwaite
Treasurer - Henry Higgins
Assistant Secretary - E. Violet Hall

HEAD OFFICE

Suite 574, 330 - 5th Avenue S.W.
Calgary, Alberta T2P 0L4

AUDITORS

Thorne, Riddell & Co.
Chartered Accountants
1400 Bow Valley Square 2
205 - 5th Avenue S.W.
Calgary, Alberta T2P 2W4

REGISTRAR

The Canada Trust Company
239 - 8th Avenue S.W.
Calgary, Alberta T2P 1B9

TRANSFER AGENTS

The Canada Trust Company
239 - 8th Avenue S.W.
Calgary, Alberta T2P 1B9

SOLICITORS

Macleod, Dixon
555 Bentall Building
444 - 7th Avenue S.W.
Calgary, Alberta T2P 0Y1

BANKERS

Bank of Montreal
604 - 8th Avenue S.W.
Calgary, Alberta T2P 1G4

Annual General Meeting

The Annual General Meeting of the shareholders of Omega Hydrocarbons Ltd. will be held at the Head Office of the Company, 574, 330 - 5th Avenue S.W., Calgary, Alberta, on Monday the 14th day of June, 1976 at 4:00 p.m. (local time).

OMEGA HYDROCARBONS LTD.

DIRECTORS' REPORT

TO THE SHAREHOLDERS OF
OMEGA HYDROCARBONS LTD.

In this, the Annual Report of 1975 of Omega Hydrocarbons Ltd., your Directors are pleased to present the Company's financial statement for the year ending December 31, 1975 and to review benefits achieved, including work in progress.

The Company entered the year with a modest working capital of \$21,109 and ended the year with \$3,341. Capital expenditures amounted to \$115,877 which only moderately contributed to cash flow during the year. The full impact of these expenditures will show up in 1976 and subsequent years.

The 1975 results of Omega Hydrocarbons Ltd., reflect clearly the considerable improvement in all areas of revenue, cash flow and net earnings. Operating results increased from a loss of \$34,707 (2¢ per share) in 1974 to earnings before extraordinary items of \$19,220 (1¢ per share) in 1975. Allowing for extraordinary items, per common share data amounted to a loss of 2¢ per share in 1974 compared to net earnings of 4¢ per share in 1975. Revenue for 1975 was \$207,268 compared to \$129,743 in 1974, a gain of \$77,525 or 60%.

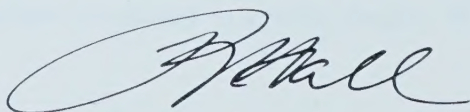
This gratifying performance can be attributed to increased production, higher oil and gas prices combined with lower overall expenses in a year when operating costs in all sectors of the industry increased dramatically.

Your Company was actively engaged in two areas of interest during 1975. In July and August, 1975 a 100% owned capped gas well in Sedalia was completed and connected to the gathering system increasing production by 1.0 MMcf per day. During September through November, 1975 the Company successfully completed a water source well for its proposed waterflood plans at Waskada, Manitoba which tested in excess of 2,000 barrels of water per day, flowing. Subsequent to that a 1.5 mile water pipeline was installed connecting the water source well to the proposed injection well. An application to the Manitoba Oil & Gas Conservation Board was prepared requesting approval to unitize the Company's six producing oil wells and to initiate a scheme to waterflood its area of the Waskada Oil Pool. A hearing was held on March 12, 1976 followed by interim approval to start injecting water. Injection started on April 2, 1976 and current injection rates are in the range of 1300 to 1400 barrels per day.

Looking into 1976 your Directors are confident of improved cash flow from the Sedalia gas producing property and are optimistic that a response to the waterflood program in Waskada will take place by the fourth quarter of 1976.

Currently, the Company is considering an offer to convert its overriding royalty interest in its Manyberries property to a working interest. This will include drilling a minimum of two wells at no cost to the Company.

ON BEHALF OF THE BOARD



T. Jack Hall,
President

Calgary, Alberta
May 31, 1976

OMEGA HYDROCARBONS LTD.

STATEMENT OF EARNINGS AND DEFICIT

YEAR ENDED DECEMBER 31, 1975

	<u>1975</u>	<u>1974</u>
REVENUE		
Oil and gas sales	\$ 207,268	\$ 129,743
EXPENSES		
Production	43,967	59,066
General and administrative	29,513	28,812
Interest and expense on long-term debt	27,250	28,447
Depletion	30,032	31,208
Depreciation	22,986	16,917
	<u>153,748</u>	<u>164,450</u>
Earnings (loss) before income taxes and extraordinary items	<u>53,520</u>	<u>(34,707)</u>
INCOME TAXES		
Current	50,200	—
Alberta Royalty Tax Credit	<u>(15,900)</u>	<u>—</u>
	<u>34,300</u>	<u>—</u>
Earnings (loss) before extraordinary items	<u>19,220</u>	<u>(34,707)</u>
EXTRAORDINARY ITEMS		
Gain on repurchase of 9% debentures (net of applicable income taxes of \$3,000)	15,307	—
Recovery of income taxes (note 2)	<u>53,200</u>	<u>—</u>
	<u>68,507</u>	<u>—</u>
NET EARNINGS (LOSS)	87,727	(34,707)
Deficit at beginning of year	<u>(1,836,405)</u>	<u>(1,801,698)</u>
DEFICIT AT END OF YEAR	<u>\$ (1,748,678)</u>	<u>\$ (1,836,405)</u>
EARNINGS PER SHARE		
Earnings (loss) before extraordinary items.	<u>\$.01</u>	<u>\$ (.02)</u>
Net earnings (loss)	<u>\$.04</u>	<u>\$ (.02)</u>

OMEGA HYDROCARBONS LTD.

BALANCE SHEET AS AT DECEMBER 31, 1975

ASSETS

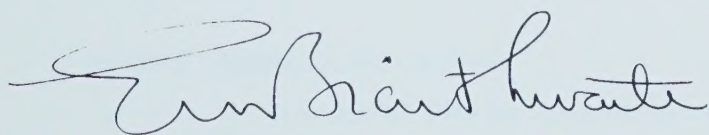
	<u>1975</u>	<u>1974</u>
CURRENT ASSETS		
Cash	\$ —	\$ 11,735
Accounts receivable	69,335	27,097
Due from shareholder - Alberta Gas Products System Ltd.	<u>30,000</u>	<u>12,193</u>
	<u>99,335</u>	<u>51,025</u>
FIXED ASSETS		
Petroleum and natural gas leases and rights together with exploration, development and equipment thereon, at cost (note 1)	<u>747,970</u>	<u>632,093</u>
Accumulated depletion and depreciation	<u>(578,449)</u>	<u>(525,431)</u>
	<u>169,521</u>	<u>106,662</u>
OTHER ASSETS		
Debenture issue expenses, at cost less amounts amortized	<u>14,984</u>	<u>22,348</u>
Drilling and other deposits	<u>7,437</u>	<u>7,437</u>
	<u>22,421</u>	<u>29,785</u>
	\$ <u><u>291,277</u></u>	\$ <u><u>187,472</u></u>

OMEGA HYDROCARBONS LTD.

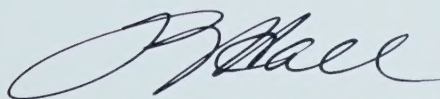
BALANCE SHEET AS AT DECEMBER 31, 1975

LIABILITIES

	<u>1975</u>	<u>1974</u>
CURRENT LIABILITIES		
Bank indebtedness	\$ 31,737	\$ —
Accounts payable	39,081	24,011
Accrued debenture interest payable	1,676	1,905
Current portion of long-term debt	<u>23,500</u>	<u>4,000</u>
	<u>95,994</u>	<u>29,916</u>
 LONG-TERM DEBT (note 3)		
9% Series "A" convertible sinking fund debentures, due December 1, 1980 subject to annual sinking fund pay- ments of \$50,000	<u>200,000</u>	<u>250,000</u>
 CAPITAL STOCK AND DEFICIT		
 CAPITAL STOCK (notes 4 and 6)		
Authorized 5,000,000 common shares of no par value		
Issued 2,162,156 shares	1,743,961	1,743,961
 DEFICIT	<u>(1,748,678)</u>	<u>(1,836,405)</u>
	<u>(4,717)</u>	<u>(92,444)</u>
 Approved by the Board:	 \$ <u>291,277</u>	 \$ <u>187,472</u>



.....
Director



.....
Director

OMEGA HYDROCARBONS LTD.

STATEMENT OF CHANGES IN FINANCIAL POSITION YEAR ENDED DECEMBER 31, 1976

	<u>1975</u>	<u>1974</u>
SOURCE OF FUNDS		
From operations		
Earnings (loss) before extraordinary items	\$ 19,220	\$ (34,707)
Items not involving funds		
Depletion	30,032	31,208
Depreciation	22,986	16,917
Amortization of debenture issue expenses	7,364	5,586
	<u>79,602</u>	<u>19,004</u>
Recovery of income taxes (note 2)	53,200	
	<u>132,802</u>	<u>19,004</u>
APPLICATION OF FUNDS		
Fixed asset additions	115,877	—
Long-term debt, net	34,693	4,000
	<u>150,570</u>	<u>4,000</u>
INCREASE (DECREASE) IN WORKING CAPITAL	(17,768)	15,004
Working capital at beginning of year	<u>21,109</u>	<u>6,105</u>
WORKING CAPITAL AT END OF YEAR	\$ 3,341	\$ 21,109

OMEGA HYDROCARBONS LTD.

NOTES TO FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 1975

NOTE 1 OIL AND GAS OPERATIONS

The Company's accounting policy is to capitalize, within a defined area of interest, all costs incurred in the exploration for and development of oil and gas reserves. When properties prove to be non-productive, the costs are written-off to expense. The cost of successful wells, producing lease costs and the cost of equipment are amortized on a unit-of-production method based on estimated recoverable reserves.

The costs attributed to unproven properties are capitalized. When unproven lands are surrendered, the costs are written-off as expense in the year of abandonment.

NOTE 2 INCOME TAXES

In prior years, the Company claimed less exploration and development expenditures and capital cost allowances for income tax purposes than the related depletion and depreciation provisions recorded in the accounts. As a result the amount of exploration and development expenditures and undepreciated capital costs available for tax purposes exceeds the related net book values reflected in the accounts by approximately \$822,000. Taxes otherwise payable for the current year have been eliminated by claiming a portion of the excess deductions available for tax purposes and the resulting tax reduction has been shown as an extraordinary item in the accompanying statement of earnings.

NOTE 3 LONG-DEBT

The 9% debentures are convertible into common shares, prior to maturity or cancellation, at \$2.00 per share to August 31, 1979. No debentures have been converted to December 31, 1975.

NOTE 4 CAPITAL STOCK

As at December 31, 1975, 111,750 common shares are reserved for issue on conversion of the 9% debentures.

NOTE 5 STATUTORY INFORMATION

No direct remuneration was paid to directors and senior officers of the Company during 1975.

NOTE 6 SUBSEQUENT EVENT

On April 8, 1976 the Company issued 700,000 treasury shares to an officer and director for \$70,000 cash.

AUDITORS' REPORT

To the Shareholders of
Omega Hydrocarbons Ltd.

We have examined the balance sheet of Omega Hydrocarbons Ltd. as at December 31, 1975 and the statements of earnings and deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1975 and the results of its operations and the changes in its financial position for the year ended, in accordance with generally accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
April 20, 1976

THORNE RIDDELL & CO.
Chartered Accountants

